

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 COME-00 ITC-01 TRSE-00
STR-04 L-03 FRB-03 SS-15 NSC-05 SP-02 NSA-01 AID-05
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FM AMCONSUL TORONTO

TO SECSTATE WASHDC 4997

INFO AMEMBASSY OTTAWA

USMISSION GENEVA

US DEL MTN GENEVA

ALL CONSULATES IN CANADA VIA POUCH

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E.O. 11652: N/A

TAGS: ETRD, EIND, CA

SUBJECT: BACKGROUND INFORMATION ON AUTO PARTS PROPOSAL TO GOC

REF: OTTAWA 460, FEBRUARY 4, 1977

BEGIN UNCLASSIFIED

1. AUTO PARTS MANUFACTURERS ASSOCIATION PRESIDENT LAVELLE WAS PANELIST AT FEBRUARY 10 SESSION OF ONTARIO ECONOMIC CONFERENCE "PARTNERSHIP FOR PROSPERITY" IN TORONTO. IN HIS PRESENTATION LAVELLE CLAIMED THAT WHILE CANADAIN PARTS INDUSTRY HAD DRAMATIC INCREASE IN PERCENTAGE OF PRODUCTION EXPORTED TO U.S. -- 80 PERCENT NOW VERSUS 20 PERCENT 10 YEARS AGO -- CANADAIN PARTS INDUSTRY SHARE OF DOMESTIC MARKET HAD FALLEN FROM 65 PERCENT TO ABOUT 35 PERCENT IN THE SAME PERIOD DUE TO CANADIAN GOVERNMENT POLICY AND THE LACK OF TARIFF PROTECTION FOR CANADIAN INDUSTRY, HE CONTINUED THAT THE GOC HAS BEEN TOO GENEROUS IN TARIFF NEGOTIATIONS.

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2. LAVELLE ALSO CLAIMED THAT THE MAINTENANCE OF THE CANADIAN DOLLAR HAS HAD DRAMATIC EFFECTS ON CANADAIN COMPETITIVENESS AND THAT WHILE THE INVESTMENT CLIMATE IN CANADA HAD BEEN HURT BY SUCH PROGRAMS AS FIRA, THE EFFECTS OF THESE PROGRAMS HAD BEEN EXAGGERATED IN CANADA AND ESPECIALLY SO ABROAD. HE ADVISED THE PROVINCE OF ONTARIO NOT TO FORCE LABOR AND SOCIAL LEGISLATION ON

ONTARIO MANUFACTURERS THAT ARE NOT PUT ON COMPETING MANUFACTURERS IN OTHER JURISDICTIONS.

3. IN CONTRAST, THE ASSOCIATION'S ANNUAL ECONOMIC PRESENTATION TO THE PROVINCIAL GOVERNMENT (IN WHICH IT IS STATED THAT 90 PERCENT, NOT 80 PERCENT, OF CANADAIN PARTS PRODUCTION IS DESTINED FOR THE US MARKET) FOCUSSED ON THE NEED FOR INCREASED CAPITAL INVESTMENT TO IMPROVE PRODUCTIVITY AND ACHIEVE GREATER ECONOMIES OF SCALE. INVESTMENT, IT ARGUED, COULD BE ENCOURAGED ON BOTH PROVINCIAL AND FEDERAL LEVELS. PROVINCIAL GOVERNMENT URGED TO EXTEND 7 PERCENT SALES TAX EXEMPTION FOR PRODUCTION MACHINERY TO INCLUDE LEASED MACHINERY AS WELL AS NON-PRODUCTION MACHINERY CONTRIBUTING TO INCREASED PRODUCTIVITY (E.G. FORK LIFT TRUCKS), AND ONTARIO DEVELOPMENT CORPORATION URGED TO MAKE LENDING POLICY MORE COMPETITIVE AND ALLOW INDUSTRY TO LOCATE WHERE IT MAKES ECONOMIC SENSE, RATHER THAN BE FORCED INTO "UNDERDEVELOPED" AREAS OF PROVINCE. FEDERAL POLICIES CITED AS TENDING TO DISCOURAGE INVESTMENT WERE ANTI-INFLATION RULES AND FIRA (SINCE 60 PERCENT OF PARTS INDUSTRY FOREIGN-OWNED, IT ARGUED, FIRA LIMITS INDUSTRY'S ABILITY TO EXPAND OR RATIONALIZE). PRESENTATION ALSO CALLED FOR REMOVAL OF DUTY REMISSION LIMITATIONS ON THIRD COUNTRY AUTOS PRODUCED BY FIRMS PURCHASING CANADAIN-MADE PARTS AND SAID THAT MINISTERS MCDONALD (FINANCE) AND CHRETIEN (INDUSTRY) HAD BOTH INDICATED "THAT THE MATTER IS TO BE GIVEN URGENT CONSIDERATION," ALTHOUGH WARNED THAT FEDERAL GOVERNMENT FEARED US COUNTERVAIL. END UNCLASSIFIED.

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4. COMMENT: IN INFORMAL CONVERSATION AT DINNER FEB 10 LAVELLE TOLD CONSULAR OFFICER OF HIS STRONG FEELINGS ABOUT FORD MOTOR COMPANY BECAUSE OF FORD'S REFUSAL TO PROCURE WHAT HE CONSIDERED AN ADEQUATE AMOUNT OF PARTS IN CANADA. HE CLAIMED GENERAL MOTORS WAS COMPLETELY DIFFERENCE AND THAT, AS A MATTER OF PRINCIPLE, HE ONLY DROVE GM CARS. LAVELLE ALSO NOTED THAT HE WAS AUTOMATICALLY CONSIDERED A LIBERAL BY MOST CANADAINS -- ALTHOUGH REFUSING TO SAY WHETHER HE WAS OR NOT -- JUST BECAUSE HE HAD WORKED FOR 5 YEARS FOR ALLAN J. MACEACHEN, LONG-TIME MEMBER OF THE TRUDEAU GOVERNMENT AND NOW PRESIDENT OF THE QUEEN'S PRIVY COUNCIL.

5. WE HAVE LONG HAD DIFFICULTY IN KEEPING TRACK OF LAVELLE'S STATISTICS AND PRIORITIES. FOR EXAMPLE, WE HAVE NEVER BEEN ABLE TO GET A CLEAR RESPONSE TO THE QUESTION WHEY THE CANADAIN INDUSTRY CAN COMPETE IN THE US MARKET BY NOT IN ITS OWN DOMESTIC MARKET. RATHER, WE GET THE IMPRESSION THAT HE RAISES ISSUES -- ALMOST REGARDLESS

OF THEIR MERITS -- JUST TO KEEP THE INDUSTRY AND THE
ASSOCIATION IN THE PUBLIC EYE. IN THIS CONNECTION WE
UNDERSTAND THAT HE OWES HIS POSITION IN THE ASSOCIATION
TO HIS PLEDGE TO BE AN "ACTIVIST" MANAGER.

6. COPIES OF ASSOCIATION PRESENTATIONS BEING POUCHED
TO OTTAWA, USDEL MTN GENEVA (HAMMERSCHLAG), EUR/CAN
(BLAKEMORE), AND USDOC (GERNANDEZ AND STOLER). END CLASSIFIED.
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